

BEAVER COUNTY RETIREMENT SYSTEM



Investment Review Second Quarter 2007

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➤ "The Dividend Dearth: Still Too Stingy" - *Barron's/May 21, 2007*



CIM INVESTMENT MANAGEMENT, INC.

Investment Building, 239 Fourth Ave., Suite 1302, Pittsburgh, PA 15222

Beaver County Retirement System
County Courthouse
810 Third Street
Beaver, PA 15009

July 25, 2007

Dear Members of the Board:

The American economy accelerated following a slow first quarter. Worries about the housing market were not enough to hold back stocks in the second quarter. The bond market declined as expectations for lower interest rates diminished.

The S & P 500 Index returned +6.28% for the second quarter and is +6.96% for the year-to-date. The Lehman Aggregate Bond Index had a return of -0.52% for the quarter and is +0.98% thus far in 2007.

Our client returns are still in line with their indices at the midway point 2007. We have been positioned for a more volatile market for some time and expect to hold up well should risk increase later in the year.

Yours very truly,

CIM INVESTMENT MANAGEMENT, INC.

Andrew C. Fisher
President

Sarah E. R. Wilson
First Vice President

Coming or Going? – March 31, 2007 to June 30, 2007

It was not long ago that the financial press was trumpeting news of the decline of the housing market and the ravages of sub-prime mortgages. The thinking then was that economic growth would falter and force the Fed's hand to lower short term interest rates. The problems are still there; witness the failure of two Bear Stearns hedge funds holding \$800 MM worth of sub prime mortgages. But interest rates rose in the second quarter because economic reports pointed to a strong labor market and accelerating earnings. Importantly, inflation showed no signs of backing off. U.S. equity markets continued to perform well, with the S & P 500 +6.28% for the quarter. The Dow Jones Industrials were +9.12% and the NASDAQ was +7.50%.

For now, the Federal Reserve Board seems unlikely to cut interest rates until well into 2008. The Fed wants to demonstrate that it is going to keep rates high enough to stem the rate of inflation. Until the rate of unemployment increases, monetary policy will probably not change. Fiscal policy is expected to be easier on the spending side but tighter on taxes. The tax cuts in place are expected to expire as scheduled in 2010. Congress is debating higher tax rates on private equity firms as well.

The fixed income markets posted negative returns for the second quarter. Interest rates increased enough to offset the income generated from coupons. The Lehman Aggregate and Intermediate Aggregate bond indices returned -0.52% and -0.35%, respectively. The Lehman Government/Credit and Government/Credit Intermediate indices, which do not include

mortgage pass through securities, were -0.48% and -0.14%, respectively. The Treasury yield curve steepened to a more normal, upwardly sloping, shape. The yield differential between the Treasury 2-year note and the 30-year bond rose from only 2 basis points at the beginning of the quarter to 26 basis points by June 30th.

	Index Returns	
	Quarter 3/31/07-6/30/07	One-Year 6/30/06-6/30/07
S&P 500	6.28%	20.59%
S&P MidCap 400	5.84	18.51
Russell 2000	4.41	16.42
S&P 600 Smallcap	5.18	16.05
Dow Jones Industrials	9.12	23.05
NASDAQ	7.50	19.85
MSCI EAFE	6.67	27.53
Lehman Aggregate	(0.52)	6.12
Lehman Gov./Credit	(0.49)	6.00

The stock market forged ahead, driven by mergers and stock buybacks. Alcoa made a hostile bid for its Canadian counterpart, Alcan. Private equity firms have been involved in corporate takeovers, with the most notable being student loan giant Sallie Mae (SLM). Other leveraged buyouts in the past 13 months; Texas Utilities,

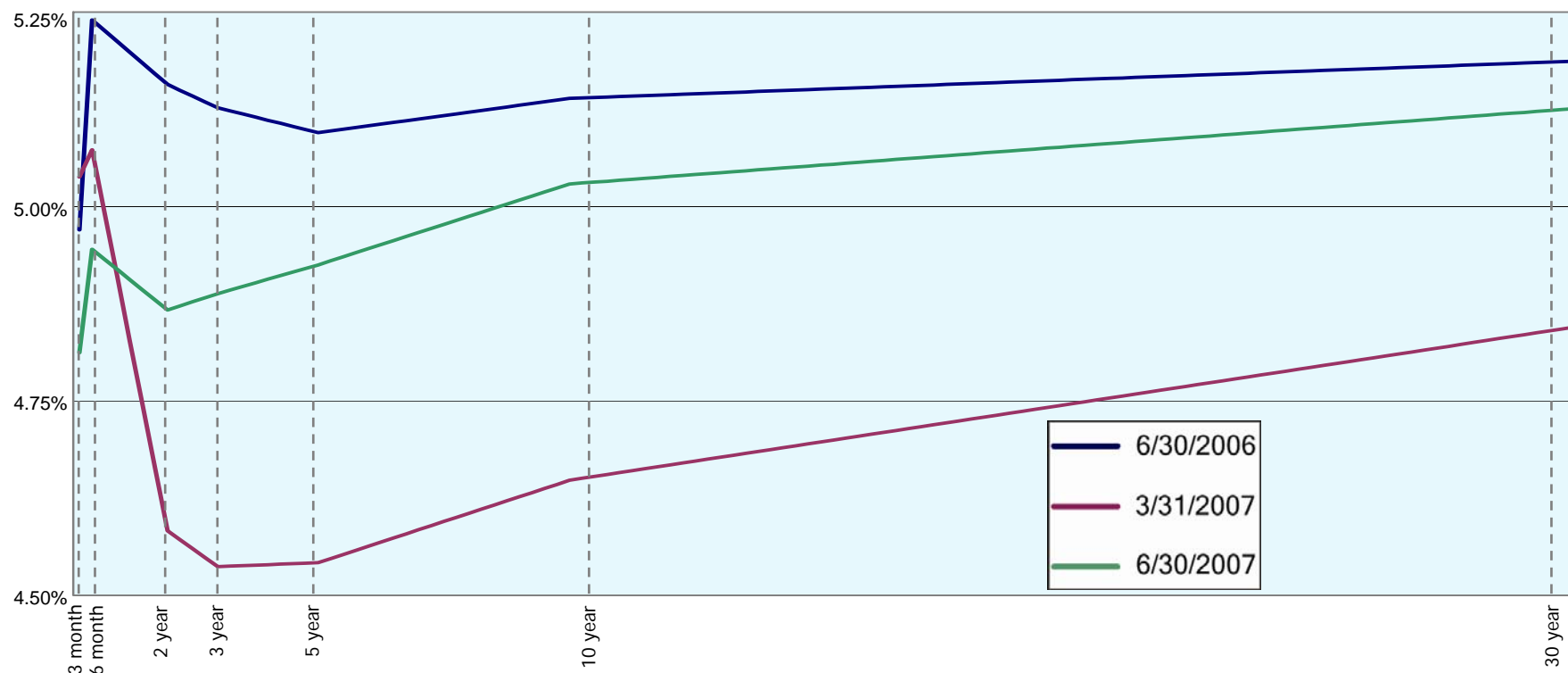
Equity Office Properties, HCA, Kinder Morgan, Harrah's, Alltel, First Data and Clear Channel. These and other transactions have spawned increased demand for protective language in bond covenants to shield creditors from sudden changes in credit quality. Bondholders are often left in the lurch when companies are acquired. Increased debt causes deteriorating balance sheets and, ultimately, lowers credit quality.

The brief but dramatic upswing in longer rates we saw in the second quarter showed how quickly the threat of higher interest rates can affect market volatility. Were this to take place over a more prolonged period, the chain reaction would eventually increase unemployment and force a Fed easing. In the meantime, rates rallied at the end of June and calmed investors. Market economists, at present, are pegging the timing of a Fed ease for mid-year 2008.

By Nathan Sax, CFA, Director of Fixed Income

U.S. Treasury Yield Curve

Second Quarter 2007



	<u>6/30/2006</u>	<u>3/31/2007</u>	<u>6/30/2007</u>	<u>Quarterly Change</u>	<u>Annual Change</u>
3 Month	4.99%	5.04%	4.81%	(0.23%)	(0.17%)
6 Month	5.24	5.07	4.95	(0.13)	(0.30)
2 Year	5.16	4.58	4.87	0.28	(0.29)
3 Year	5.13	4.54	4.89	0.35	(0.24)
5 Year	5.10	4.54	4.93	0.38	(0.17)
10 Year	5.14	4.65	5.03	0.38	(0.11)
30 Year	5.19	4.85	5.13	0.28	(0.06)












ECONOMIC MATRIX

	Comments	Market Impact	
ECONOMIC GROWTH	First quarter GDP was revised to 0.7% from the previously reported 1.3% annual rate. Estimates for second quarter growth have been revised up to approximately 3.0%.	S & P company earnings grew at an annual rate of approximately 10% in the first quarter. Estimates had been for growth of less than half that pace.	Bullish for stocks Bearish for bonds
INFLATION	Investors are concerned about inflation. Expectations for lower prices have been delayed. The Fed is not expected to lower rates until well into 2008.	The yield on the Treasury 10-year note rose from 4.65% to 5.02% during the second quarter. The higher interest rates failed to hold back equity returns.	Bearish for stocks Bearish for bonds
MONETARY POLICY	Monetary policy is now widely viewed as being on hold for the foreseeable future. Expectations for rate cuts in 2007 have all but vanished.	Stocks and bonds both stood to benefit from a shift in Fed policy in favor of lower rates. The factors preventing such a change are a vibrant economy and limited, but steady, inflation.	Bearish for stocks Bearish for bonds
FISCAL POLICY	The conventional wisdom is that the tax cuts will be allowed to expire in 2010. The Alternative Minimum Tax will broaden unless modified by Congress.	Tighter fiscal policy would counter an easier Fed policy, should the economy falter. There is limited room to increase federal spending but taxes are expected to go higher.	Bearish for stocks Bullish for bonds
FOREIGN EXCHANGE	Following talks with the U.S., China reiterated its opposition to changes in its foreign exchange and trade policies. Political pressures to protect U.S. jobs are behind much of the rhetoric.	The U.S. Treasury is sensitive to Chinese investment in our Government bonds. The Chinese invest their very large dollar reserves in our capital markets, helping to keep interest rates down.	Bearish for stocks Bearish for bonds
TECHNICAL FACTORS	The 10-year Treasury note broke through support levels on its way to 5.30% before settling down to end the quarter at 5.02%.	Going into the third quarter, bonds have found a new support level at 5.30%.	Bearish for stocks Bearish for bonds

Summary: Speculation that the economy would slow based on weakness in the housing market was pushed into the background. Strength in employment, prices and investment banking caused a run up in interest rates. The Federal Funds rate is still on hold at 5 ¼% and expected to remain there until sometime in 2008.

CURRENCY RATES

KEY CROSS CURRENCY RATES

											
	USD	EUR	JPY	GBP	CHF	CAD	AUD	NZD	HKD	NOK	SEK
SEK	6.7488	9.1936	5.4694	13.598	5.5477	6.4321	5.8046	5.2674	.86347	1.1596	....
NOK	5.8200	7.9282	4.7166	11.727	4.7842	5.5469	5.0057	4.5425	.74463	....	.86237
HKD	7.8159	10.647	6.3342	15.748	6.4249	7.4492	6.7225	6.1003	....	1.3429	1.1581
NZD	1.2812	1.7454	1.0383	2.5816	1.0532	1.2211	1.1020	....	.16393	.22014	.18985
AUD	1.1627	1.5838	.94224	2.3426	.95574	1.1081	....	.90745	.14876	.19977	.17228
CAD	1.0492	1.4293	.85032	2.1141	.86250	....	.90244	.81893	.13424	.18028	.15547
CHF	1.2165	1.6572	.98588	2.4511	....	1.1594	1.0463	.94948	.15564	.20902	.18025
GBP	.49630	.67609	.40221	....	.40798	.47302	.42687	.38736	.06350	.08528	.07354
JPY	123.39	168.09	....	248.62	101.43	117.60	106.13	96.308	15.787	21.202	18.284
EUR	.73408	....	.59491	1.4791	.60344	.69964	.63138	.57295	.09392	.12613	.10877
USD	1.3623	.81042	2.0149	.82203	.95308	.86010	.78050	.12794	.17182	.14817

BLOOMBERG Composite

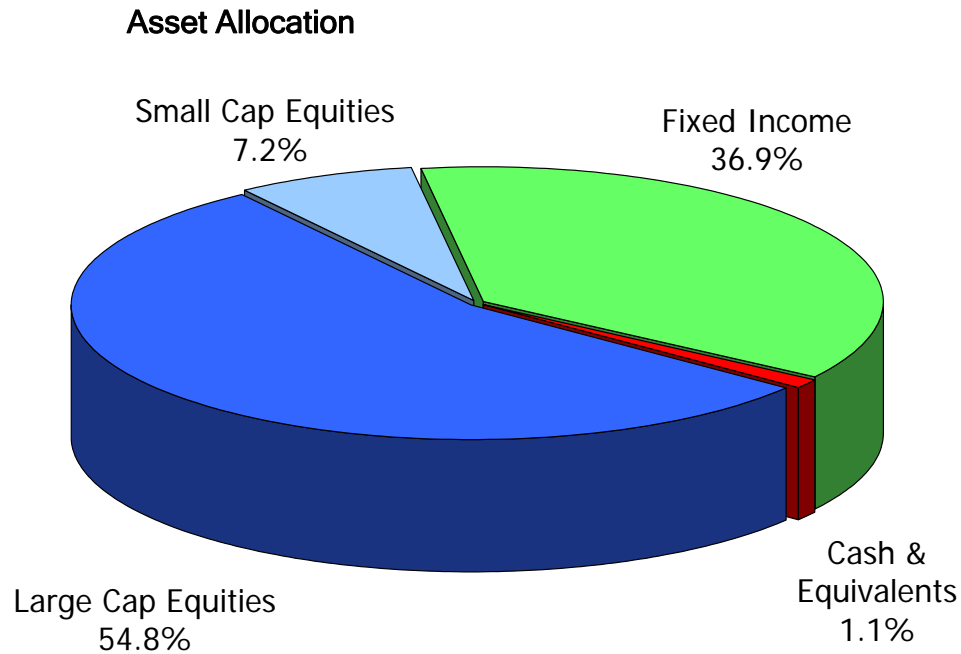
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The highlighted blue box indicates the value of one (\$1) U.S. dollar vs. the Euro, the Yen and the Pound.

The U.S. dollar has been at historic lows against the Euro. The greenback has declined five of the past six years. The exchange rate makes it easier to export cheaper American goods.

PERFORMANCE SUMMARY

Beaver County Retirement System as of June 30, 2007



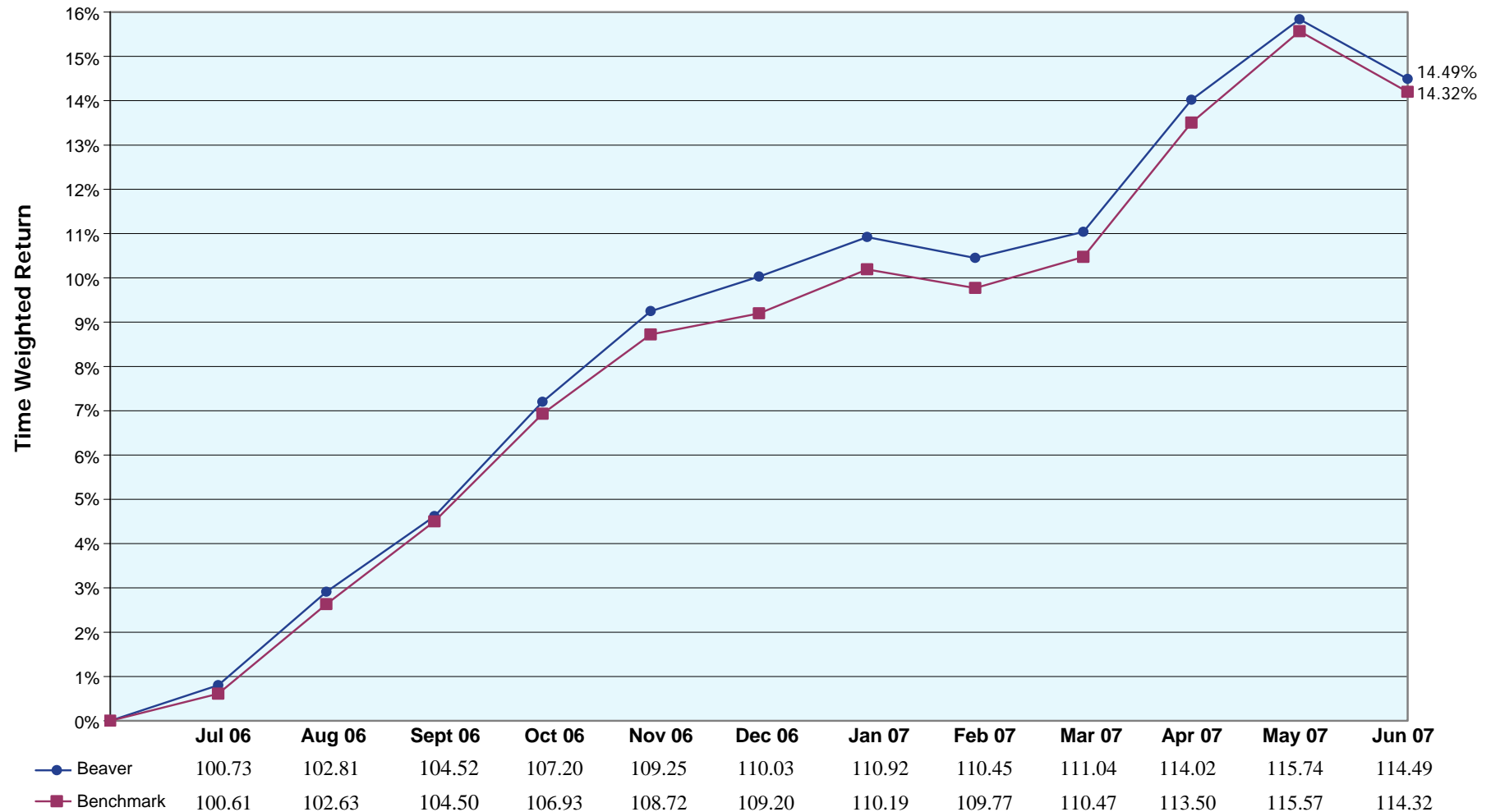
PORTFOLIO VALUE ON 3/31/07	\$78,564,543.09
CONTRIBUTIONS	833,557.51
WITHDRAWALS	(1,157,758.90)
REALIZED GAINS	38,437.74
UNREALIZED GAINS	1,796,889.32
INTEREST	440,642.65
DIVIDENDS	246,856.69
CHANGE IN ACCRUED INTEREST	(29,400.83)
PORTFOLIO VALUE ON 6/30/07	\$80,733,767.27

**TOTAL INVESTMENT GAIN
FOR THE TRAILING 3 MONTHS** \$2,493,425.57

	<u>Beginning Balance</u>	<u>Ending Balance</u>	<u>Total Return</u>
Second Quarter 2007 (3/31/07 to 6/30/07)	78,564,543.09	80,733,767.27	3.11%
Year to Date (12/31/06 to 6/30/07)	79,733,654.81	80,733,767.27	4.05%
Inception to Date (12/26/95 to 6/30/07)	29,690,332.35	80,733,767.27	158.18%

CUMULATIVE PERFORMANCE

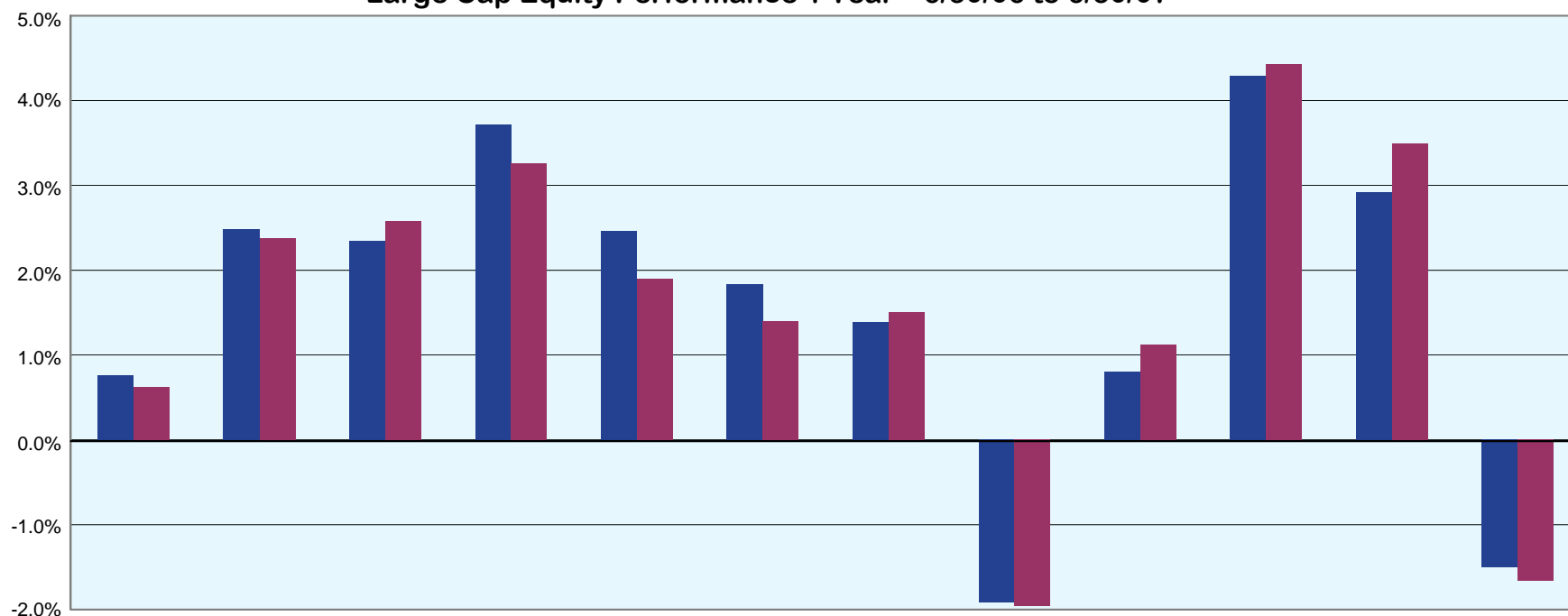
1 Year Cumulative Performance – 6/30/06 to 6/30/07



Footnote: The Benchmark used is 53% Standard & Poor's 500 Index, 40% Lehman Bros. Government/Credit Index and 7% Standard & Poor's 600 Small Cap Index since 4/30/06. Prior to that, Benchmark used was 65.5% Standard & Poor's 500 Index, 27% Lehman Bros. Government/Credit Index and 7.5% Standard & Poor's 600 Small Cap Index. Performance results are presented gross of management fees and net of commissions. Please refer to your Investment Management Agreement for applicable management fees. Fees are pro rata by quarter. Performance reported as of the end of each month.

Portfolio Performance Compared to Benchmark

Large Cap Equity Performance 1 Year – 6/30/06 to 6/30/07

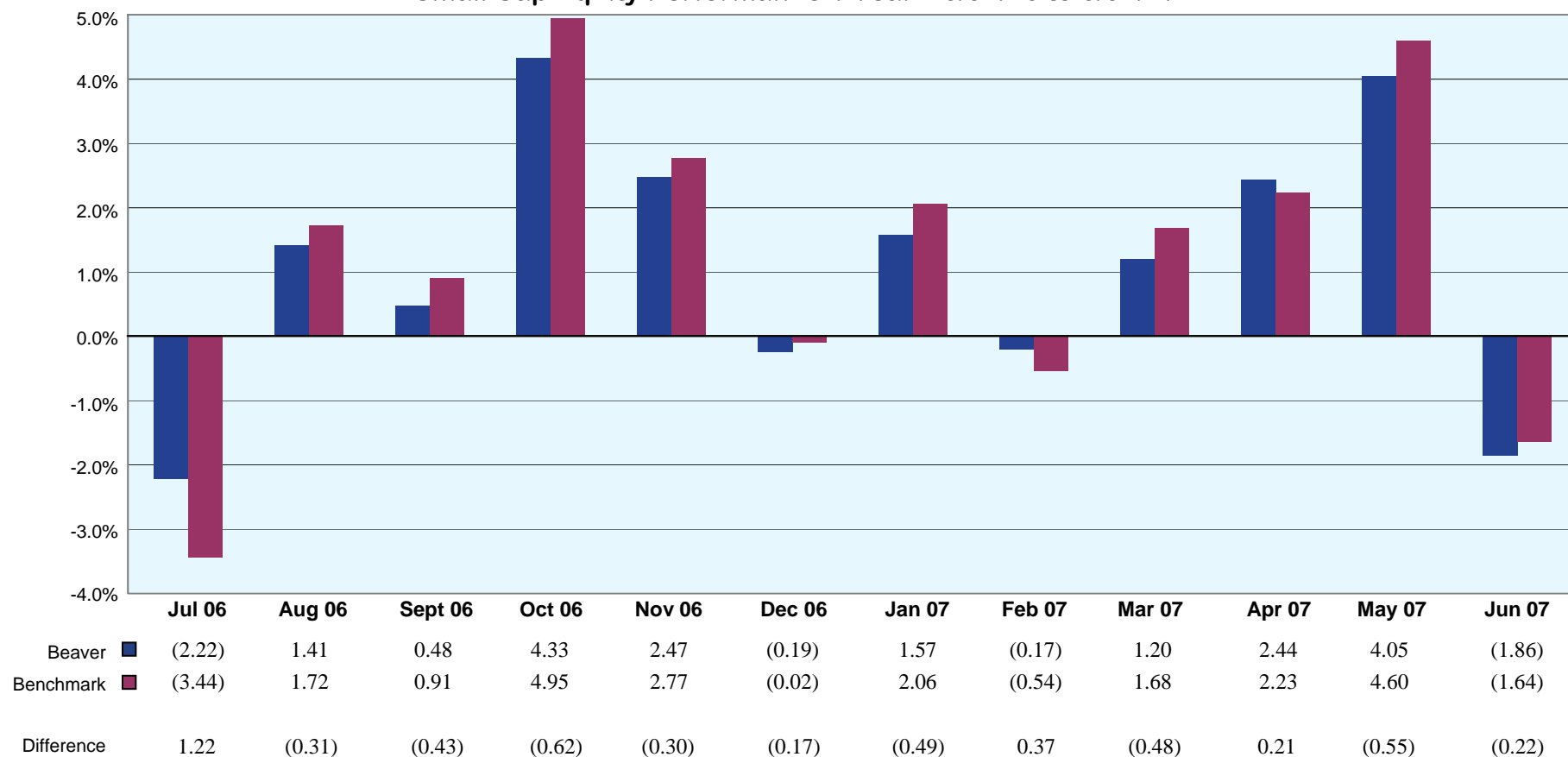


	Jul 06	Aug 06	Sept 06	Oct 06	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07
Beaver	0.76	2.48	2.35	3.72	2.46	1.84	1.39	(1.92)	0.80	4.29	2.92	(1.50)
Benchmark	0.62	2.38	2.58	3.26	1.90	1.40	1.51	(1.96)	1.12	4.43	3.49	(1.66)
Difference	0.14	0.10	(0.23)	0.46	0.56	0.44	(0.12)	0.04	(0.32)	(0.14)	(0.57)	0.16

	<u>Beaver</u>	<u>Standard & Poor's 500 Index</u>
Second Quarter 2007 (3/31/07 to 6/30/07)	5.72%	6.28%
Year to Date (12/31/06 to 6/30/07)	5.98%	6.96%
Trailing 12 Months (6/30/06 to 6/30/07)	21.22%	20.59%

Portfolio Performance Compared to Benchmark

Small Cap Equity Performance 1 Year – 6/30/06 to 6/30/07



Second Quarter 2007 (3/31/07 to 6/30/07)

Year to Date (12/31/06 to 6/30/07)

Trailing 12 Months (6/30/06 to 6/30/07)

Beaver

4.60%

7.34%

14.12%

Standard & Poor's 600 Index

5.19%

8.56%

16.04%

Portfolio Performance Compared to Benchmark

Fixed Income Performance 1 Year – 6/30/06 to 6/30/07

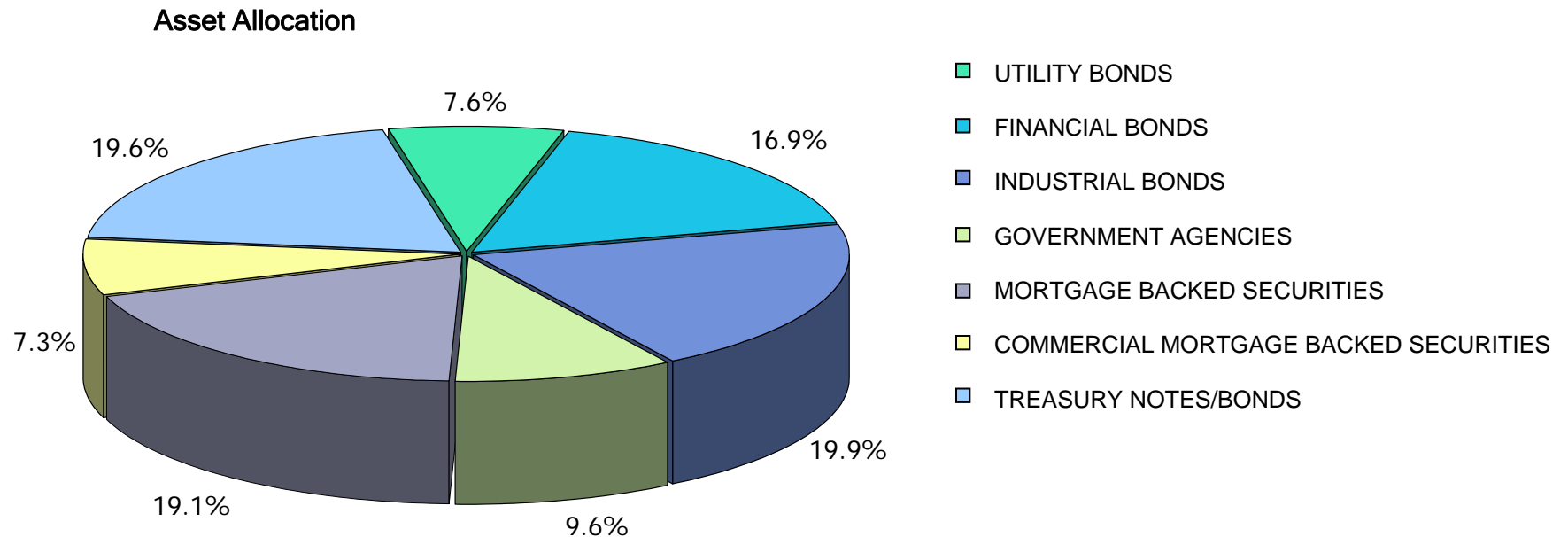


	Jul 06	Aug 06	Sept 06	Oct 06	Nov 06	Dec 06	Jan 07	Feb 07	Mar 07	Apr 07	May 07	Jun 07
Beaver	1.31	1.66	0.97	0.62	1.11	(0.71)	(0.12)	1.66	0.04	0.56	(0.89)	(0.29)
Benchmark	1.30	1.58	0.98	0.63	1.17	(0.76)	(0.08)	1.73	(0.17)	0.59	(0.86)	(0.21)
Difference	0.01	0.08	(0.01)	(0.01)	(0.06)	0.05	(0.04)	(0.07)	0.21	(0.03)	(0.03)	(0.08)

	<u>Beaver</u>	<u>Lehman Bros. Government/Credit Index</u>
Second Quarter 2007 (3/31/07 to 6/30/07)	(0.63%)	(0.49%)
Year to Date (12/31/06 to 6/30/07)	0.94%	0.97%
Trailing 12 Months (6/30/06 to 6/30/07)	6.03%	6.00%

PORTFOLIO STATISTICS

Beaver County Retirement System – Fixed Income Account as of June 30, 2007

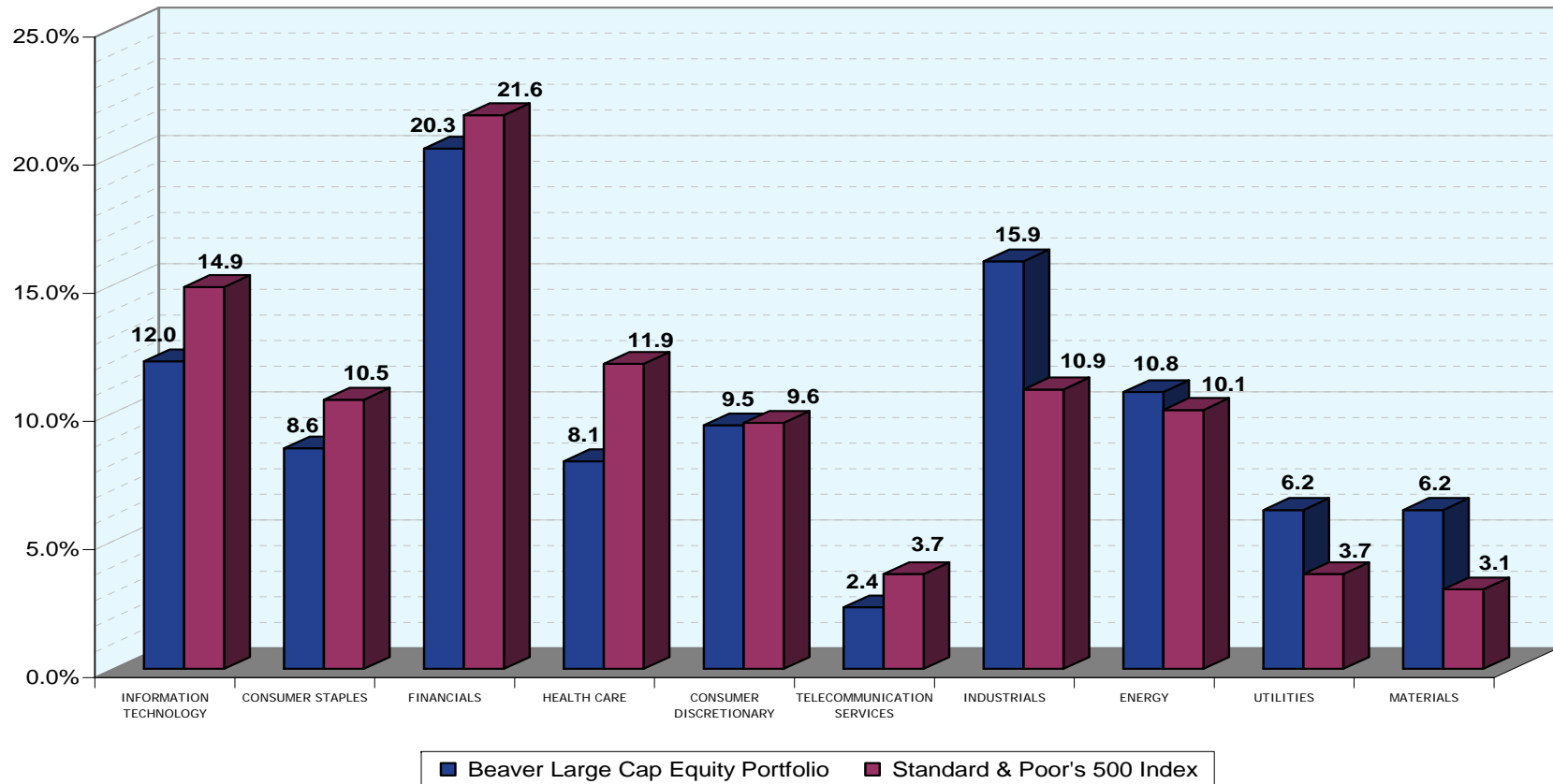


Statistical Characteristics		
	Beaver	LBGC
Coupon	5.49%	5.39%
Yield to Maturity	5.50%	5.44%
Modified Adjusted Duration	5.06 yrs	5.10 yrs
Average Price	\$99.32	\$100.66
Average Credit Quality	Aa3	Aa2

Sector Allocation		
	Beaver	LBGC
Utility Bonds	7.6%	3.3%
Financial Bonds	16.9%	14.1%
Industrial Bonds	19.9%	16.0%
Government Agencies	9.6%	19.3%
Non-Corporate	0.0%	6.1%
Mortgage Backed Securities	19.1%	0.0%
Commercial Mortgage Backed Securities	7.3%	0.0%
Treasury Notes/Bonds	19.6%	41.2%

PORTFOLIO STATISTICS

Beaver County Retirement System – Large Cap Portfolio Industry Sector Diversification as of June 30, 2007

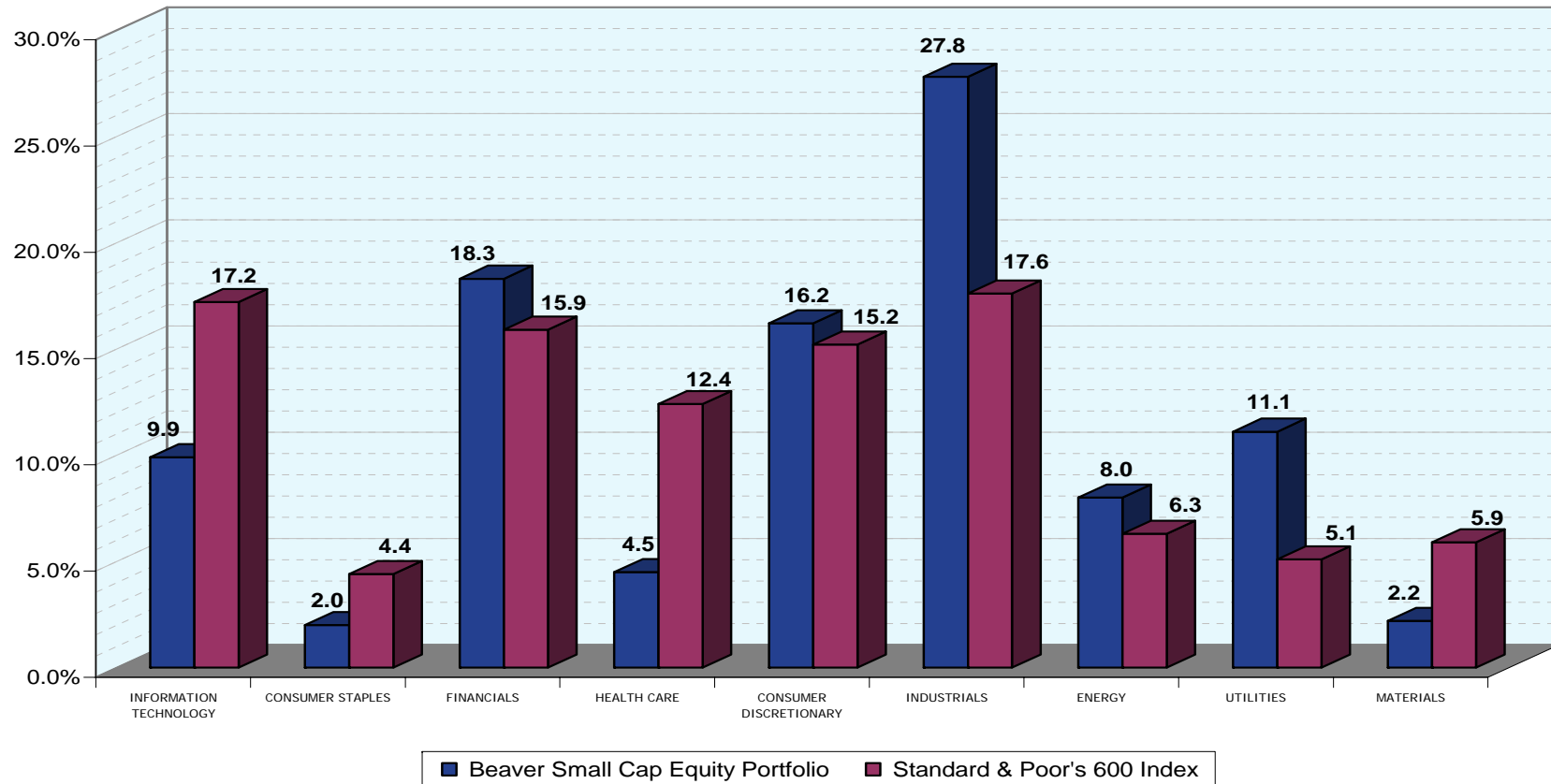


Top Ten Equity Holdings

	percentage		percentage
1. Exxon Mobil Corp.	3.4	6. Torchmark Corp.	1.5
2. General Electric Co.	3.0	7. Pfizer, Inc.	1.4
3. Microsoft Corp.	1.9	8. Bank of America Corp.	1.4
4. Citigroup - New	1.7	9. Cisco Systems, Inc.	1.4
5. AT&T	1.7	10. Intel Corporation	1.3

PORTFOLIO STATISTICS

Beaver County Retirement System – Small Cap Portfolio Industry Sector Diversification as of June 30, 2007



Top Ten Equity Holdings

	percentage		percentage
1. IDEX Corp.	1.9	6. Baldor Electric Co.	1.6
2. United Stationers Inc.	1.8	7. Varian Semiconductor	1.5
3. Northwest Nat. Gas	1.7	8. MAF Bancorp Inc.	1.5
4. Manitowoc Comp Inc.	1.7	9. Southern Union Co.	1.5
5. Atmos Energy Corp.	1.7	10. URS Corp.	1.5

BEAVER COUNTY RETIREMENT SYSTEM PORTFOLIO APPRAISAL

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
COMMON STOCK								
INFORMATION TECHNOLOGY								
2,990	Apple Computer	94.18	281,598.20	122.04	364,899.60	0.5	0.00	0.0
2,665	Benchmark Electronics	21.37	56,957.40	22.62	60,282.30	0.1	0.00	0.0
1,415	Black Box Corporation	49.09	69,466.66	41.38	58,552.70	0.1	84.90	0.1
4,265	Brooks Automation Inc	12.14	51,775.39	18.15	77,409.75	0.1	0.00	0.0
1,045	Cerner Corp.	49.28	51,497.60	55.47	57,966.15	0.1	0.00	0.0
21,735	Cisco Systems, Inc.	13.69	297,498.38	27.85	605,319.75	0.7	0.00	0.0
1,145	Cymer Inc.	24.90	28,515.90	40.20	46,029.00	0.1	0.00	0.0
5,005	Exar Corp	13.15	65,838.35	13.40	67,067.00	0.1	0.00	0.0
765	Google Inc Cl-B	406.58	311,030.00	522.70	399,865.58	0.5	0.00	0.0
10,015	Hewlett Packard Co.	18.40	184,287.98	44.62	446,869.30	0.6	3,204.80	0.7
5,420	Int'l Bus Machines	62.17	336,976.60	105.25	570,455.00	0.7	6,504.00	1.1
24,925	Intel Corporation	19.28	480,554.00	23.74	591,717.01	0.7	1,994.00	0.3
1,520	Investment Tech Grp.	43.47	66,072.10	43.33	65,861.60	0.1	0.00	0.0
2,345	Microsemi Corp.	21.36	50,089.20	23.95	56,162.75	0.1	0.00	0.0
28,220	Microsoft Corporation	25.38	716,219.54	29.47	831,643.40	1.0	11,288.00	1.4
8,520	Molex Inc.	28.61	243,718.06	30.01	255,685.20	0.3	2,556.00	1.0
15,990	Oracle Systems Corp.	14.30	228,680.07	19.71	315,162.90	0.4	0.00	0.0
6,290	Qualcomm Inc.	35.88	225,712.12	43.39	272,923.10	0.3	3,019.20	1.1
15,470	Teradyne, Inc.	16.78	259,515.44	17.58	271,962.60	0.3	464.10	0.2
9,770	Texas Instruments	25.53	249,398.80	37.63	367,645.10	0.5	1,563.20	0.4
2,235	Varian Semiconductor	12.75	28,506.56	40.06	89,534.10	0.1	0.00	0.0
			4,283,908.37		5,873,013.88	7.3	30,678.20	0.5
CONSUMER STAPLES								
8,190	Altria Group Inc.	35.10	287,497.75	70.14	574,446.60	0.7	28,173.60	4.9
20,060	Autonation Inc.	20.41	409,485.80	22.44	450,146.40	0.6	0.00	0.0
4,250	Brown-Forman Corp.	66.24	281,520.00	73.08	310,590.00	0.4	5,610.00	1.8
6,825	Campbell Soup Co.	36.97	252,329.04	38.81	264,878.25	0.3	5,460.00	2.1
5,205	Heinz (H.J.) Co.	47.11	245,207.55	47.47	247,081.35	0.3	7,287.00	2.9
5,035	Kellogg Company	48.82	245,819.69	51.79	260,762.65	0.3	5,860.74	2.2
4,446	Kraft Foods Inc.	12.39	55,068.77	35.25	156,721.50	0.2	1,111.50	0.7
9,855	Pepsi Bottling Gp.	32.20	317,331.00	33.68	331,916.40	0.4	1,084.05	0.3
4,710	Pepsico Inc.	39.01	183,742.40	64.85	305,443.50	0.4	5,652.00	1.9
8,960	Procter & Gamble	51.91	465,151.34	61.19	548,262.40	0.7	12,544.00	2.3
745	Texas Industries Inc.	68.48	51,017.60	78.41	58,415.45	0.1	55.87	0.1

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
1,125	Tractor Supply Co.	55.25	62,159.90	52.05	58,556.25	0.1	0.00	0.0
7,240	Wal-Mart Stores	49.57	358,896.25	48.11	348,316.40	0.4	2,027.20	0.6
			3,215,227.09		3,915,537.15	4.8	74,865.96	1.9

FINANCIALS

8,381	American Int'l Grp, Inc.	51.24	429,405.87	70.03	586,921.43	0.7	5,531.46	0.9
4,590	Apt Invt & Mgmt Co-A	58.94	270,534.60	50.42	231,427.80	0.3	11,016.00	4.8
12,543	Bank of America Corp.	30.40	381,326.13	48.89	613,227.27	0.8	28,096.32	4.6
1,490	Bear Stearns Cos	150.04	223,559.60	140.00	208,600.00	0.3	253.30	0.1
1,915	Chittenden Corp.	26.95	51,608.29	34.95	66,929.25	0.1	1,532.00	2.3
13,130	Cincinnati Financial	41.94	550,636.10	43.40	569,842.00	0.7	11,029.20	1.9
14,750	Citigroup - New	34.28	505,605.00	51.29	756,527.53	0.9	8,260.00	1.1
1,757	Delphi Fin Gp-A	34.64	60,853.93	41.82	73,477.74	0.1	562.24	0.8
4,395	Dime Comm. Banc.	15.16	66,628.20	13.19	57,970.05	0.1	0.00	0.0
6,575	Equifax Inc.	32.14	211,291.57	44.42	292,061.50	0.4	0.00	0.0
8,375	Federated Inv - CI B	31.61	264,764.18	38.33	321,013.75	0.4	6,030.00	1.9
2,570	Financial Fed. Corp.	27.82	71,505.88	29.82	76,637.40	0.1	257.00	0.3
3,785	First Commonwealth	13.17	49,848.45	10.92	41,332.20	0.1	643.45	1.6
6,990	First Horizon	41.10	287,289.10	39.00	272,610.00	0.3	3,005.70	1.1
1,705	First Midwest Bancorp	35.39	60,339.95	35.51	60,544.55	0.1	289.85	0.5
2,242	Glacier Bancorp	19.55	43,823.63	20.35	45,624.70	0.1	1,524.56	3.3
1,185	Global Payments Inc.	45.37	53,759.85	39.65	46,985.25	0.1	47.40	0.1
1,960	Goldman Sachs Grp.	74.35	145,721.60	216.75	424,830.00	0.5	235.20	0.1
19,800	Huntington Bancshares	23.78	470,922.40	22.74	450,252.00	0.6	4,257.00	0.9
2,320	Independent Bank Corp/Mi	24.13	55,981.60	17.21	39,927.20	0.0	464.00	1.2
12,140	JP Morgan Chase	31.52	382,687.31	48.45	588,183.00	0.7	16,510.40	2.8
845	Kilroy Realty	64.75	54,713.75	70.84	59,859.80	0.1	418.27	0.7
3,790	Lehman Bros. Holdings	60.61	229,718.10	75.80	287,282.00	0.4	1,819.20	0.6
2,240	Lexington Corp PPTYS	21.54	48,238.85	20.80	46,592.00	0.1	806.40	1.7
3,010	M&T Bank	112.51	338,646.00	106.90	321,769.00	0.4	7,224.00	2.2
1,620	MAF Bancorp Inc.	43.47	70,425.30	54.26	87,901.20	0.1	243.00	0.3
4,765	MBIA Inc.	61.15	291,370.70	62.22	296,478.30	0.4	2,859.00	1.0
4,035	MGIC Investment	58.95	237,862.25	56.86	229,430.10	0.3	403.50	0.2
4,175	Merrill Lynch & Co.	50.19	209,524.35	83.58	348,946.50	0.4	2,672.00	0.8
4,200	Morgan Stanley	40.54	170,249.70	83.88	352,296.00	0.4	1,134.00	0.3
5,515	Principal Financial Grp	60.11	331,506.65	58.29	321,469.35	0.4	1,378.75	0.4
1,045	Proassurance Corp	46.50	48,592.50	55.67	58,175.15	0.1	0.00	0.0
3,375	Safeco Corporation	65.92	222,480.00	62.26	210,127.50	0.3	4,050.00	1.9
1,620	Sterling Finl Corp/Sp	33.89	54,901.80	28.94	46,882.80	0.1	121.50	0.3

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
2,655	Susquehanna Bancsh	23.07	61,250.05	22.37	59,392.35	0.1	531.00	0.9
6,965	T Rowe Price Gr	47.86	333,344.90	51.89	361,413.85	0.4	3,900.40	1.1
10,010	Torchmark Corp.	55.28	553,369.70	67.00	670,670.00	0.8	5,205.20	0.8
8,115	Trustco Bank Corp. NY	11.22	91,025.40	9.88	80,176.20	0.1	1,217.25	1.5
5,422	Wachovia Corp.	45.58	247,158.59	51.25	277,877.50	0.3	12,145.28	4.4
1,675	Whitney Hldg Corp.	35.83	60,019.50	30.10	50,417.50	0.1	452.25	0.9
1,405	Zenith Natl Ins Cp	41.97	58,964.51	47.09	66,161.45	0.1	1,967.00	3.0
			8,351,455.85		10,058,243.17	12.5	148,093.09	1.5
HEALTH CARE								
4,830	Abbott Laboratories	39.48	190,704.25	53.55	258,646.50	0.3	4,057.20	1.6
3,910	Amgen Inc.	52.21	204,148.72	55.29	216,183.90	0.3	0.00	0.0
8,070	Bristol Myers Squibb	24.93	201,151.03	31.56	254,689.20	0.3	8,877.00	3.5
1,055	Hologic Inc.	44.62	47,074.10	55.31	58,352.05	0.1	0.00	0.0
7,645	IMS Health Inc.	26.90	205,650.50	32.13	245,633.85	0.3	611.60	0.2
670	Idexx Laboratories Inc.	48.20	32,293.76	94.63	63,402.10	0.1	0.00	0.0
8,135	Johnson & Johnson	48.44	394,093.46	61.62	501,278.70	0.6	12,202.50	2.4
4,865	Lilly (ELI) Co.	61.60	299,662.67	55.88	271,856.20	0.3	5,448.80	2.0
4,215	Manor Care	55.34	233,258.10	65.29	275,197.35	0.3	674.40	0.2
7,335	Merck & Co. Inc.	49.58	363,685.85	49.80	365,283.00	0.5	9,975.60	2.7
1,305	Pediatric Medical Grp Inc.	48.76	63,635.45	55.15	71,970.75	0.1	0.00	0.0
24,525	Pfizer Inc.	32.67	801,309.45	25.57	627,104.25	0.8	10,791.00	1.7
1,575	Respironics Inc.	28.77	45,315.90	42.59	67,079.25	0.1	0.00	0.0
8,285	Schering-Plough	25.62	212,261.70	30.44	252,195.40	0.3	5,302.40	2.1
5,205	Wyeth	39.09	203,472.65	57.34	298,454.70	0.4	5,413.20	1.8
			3,497,717.58		3,827,327.20	4.7	63,353.70	1.7
CONSUMER DISCRETIONARY								
2,690	Black and Decker Corp.	73.70	198,241.70	88.31	237,553.90	0.3	1,291.20	0.5
5,885	Centex Corp.	41.50	244,227.50	40.10	235,988.50	0.3	941.60	0.4
1,095	Colonial Properties Tr.	47.38	51,886.25	36.45	39,912.75	0.0	722.70	1.8
11,367	Comcast Corp.-CI A	18.79	213,581.12	28.12	319,654.10	0.4	0.00	0.0
7,110	Disney Walt Co.	19.89	141,441.11	34.14	242,735.40	0.3	1,493.10	0.6
5,160	EW Scripps Co.	41.70	215,158.07	45.69	235,760.40	0.3	2,476.80	1.1
1,010	Entertainment Prop Inc	39.47	39,861.36	53.78	54,317.80	0.1	568.12	1.0
370	Essex Property Trust	127.85	47,303.21	116.30	43,031.00	0.1	284.90	0.7
6,915	Genuine Parts Co.	43.97	304,049.65	49.60	342,984.00	0.4	7,883.10	2.3
905	Group 1 Automotive	28.02	25,358.10	40.34	36,507.70	0.0	506.80	1.4

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
7,950	Home Depot Inc.	28.72	228,291.53	39.35	312,832.50	0.4	1,272.00	0.4
1,635	Kellwood Co	30.67	50,151.34	28.12	45,976.20	0.1	261.60	0.6
7,215	Liz Claiborne, Inc.	37.54	270,881.15	37.30	269,119.50	0.3	3,246.75	1.2
6,130	Meredith Corp.	49.67	304,455.39	61.60	377,608.00	0.5	2,084.20	0.6
9,965	N Y Times - Class A	22.80	227,220.94	25.40	253,111.00	0.3	6,975.50	2.8
105	NVR Inc.	824.55	86,577.75	679.75	71,373.75	0.1	0.00	0.0
7,710	Newell Company	31.46	242,556.60	29.43	226,905.30	0.3	6,476.40	2.9
910	Panera Bread Co-A	64.57	58,761.60	46.06	41,914.60	0.1	0.00	0.0
1,275	Phillips-Van Heusen	31.79	40,532.25	60.57	77,226.75	0.1	0.00	0.0
1,305	SCP Pool Corp.	19.94	26,020.10	39.03	50,934.15	0.1	548.10	1.1
6,055	Snap-On Inc.	34.84	210,956.20	50.51	305,838.05	0.4	5,812.80	1.9
5,200	Stanley Works	56.29	292,708.00	60.70	315,640.00	0.4	6,240.00	2.0
3,195	Steak n Shake	18.09	57,790.67	16.69	53,324.55	0.1	0.00	0.0
1,610	THQ Inc.	31.09	50,054.90	30.52	49,137.20	0.1	0.00	0.0
3,655	The Finish Line CL-A	14.92	54,532.60	9.11	33,297.05	0.0	91.37	0.3
1,545	The Men's Wearhouse	32.50	50,206.32	51.07	78,903.15	0.1	0.00	0.0
13,880	Time Warner Inc.	14.48	200,930.80	21.04	292,035.20	0.4	3,053.60	1.0
1,375	Toro Co.	46.04	63,306.25	58.89	80,973.75	0.1	165.00	0.2
2,220	Trimble Nav. Ltd	22.82	50,668.11	32.20	71,484.00	0.1	0.00	0.0
2,770	V.F. Corp.	61.54	170,453.70	91.58	253,676.60	0.3	6,094.00	2.4
1,680	Viad Corp.	37.55	63,084.00	42.17	70,845.60	0.1	151.20	0.2
895	Watsco, Inc.	56.07	50,184.53	54.40	48,688.00	0.1	895.00	1.8
			4,331,432.81		5,169,290.45	6.4	59,535.85	1.2
TELECOMMUNICATION SERVICES								
17,760	AT&T	35.33	627,546.42	41.50	737,040.00	0.9	5,727.60	0.8
546	Citadel Broadcasting Corp	21.55	11,765.15	6.45	3,521.70	0.0	0.00	0.0
8,170	Verizon Comm.	36.38	297,214.65	41.17	336,358.90	0.4	12,581.80	3.7
			936,526.22		1,076,920.60	1.3	18,309.40	1.7
INDUSTRIALS								
1,420	Acuity Brands Inc.	40.38	57,332.67	60.28	85,597.60	0.1	213.00	0.2
1,975	Albany Intl Corp.	35.39	69,900.30	40.44	79,869.00	0.1	790.00	1.0
2,120	Aptargroup Inc.	25.81	54,727.80	35.56	75,387.20	0.1	1,865.60	2.5
1,875	Baldor Electric Co.	35.56	66,667.69	49.28	92,400.00	0.1	1,275.00	1.4
1,480	Belden CDT	30.87	45,688.93	55.35	81,918.00	0.1	0.00	0.0
3,260	Boeing Co.	41.70	135,942.40	96.16	313,481.60	0.4	2,216.80	0.7
1,890	Briggs and Stratton	33.25	62,847.54	31.56	59,648.40	0.1	2,343.60	3.9
7,370	Cintas Corp.	35.92	264,721.40	39.43	290,599.10	0.4	2,579.50	0.9

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
1,415	Clarcor Inc.	34.18	48,361.73	37.43	52,963.45	0.1	410.35	0.8
7,810	Cooper Industries	45.64	356,448.40	57.09	445,872.90	0.6	11,558.80	2.6
3,775	Danaher Corp.	71.94	271,573.50	75.50	285,012.50	0.4	94.37	0.0
8,885	Dover Corporation	48.94	434,831.90	51.15	454,467.75	0.6	6,574.90	1.4
5,630	Eaton Corp.	49.22	277,082.70	93.00	523,590.00	0.6	8,782.80	1.7
3,990	GenCorp Inc.	16.37	65,325.72	13.07	52,149.30	0.1	0.00	0.0
34,105	General Electric Co.	28.05	956,537.59	38.28	1,305,539.40	1.6	21,827.20	1.7
5,025	Honeywell Intl., Inc.	46.31	232,707.75	56.28	282,807.00	0.4	3,768.75	1.3
2,917	IDEX Corp.	21.49	62,696.89	38.54	112,421.18	0.1	1,750.20	1.6
5,975	Ingersoll-Rand Co.	44.21	264,154.75	54.82	327,549.50	0.4	3,943.50	1.2
1,730	Kansas City Southern	26.08	45,125.67	37.54	64,944.20	0.1	0.00	0.0
1,550	Kaydon Corp.	40.20	62,310.62	52.12	80,786.00	0.1	186.00	0.2
2,945	Labor Ready, Inc.	22.80	67,145.35	23.11	68,058.95	0.1	0.00	0.0
1,820	Lennox Intl Inc.	29.23	53,204.24	34.23	62,298.60	0.1	172.90	0.3
1,210	Manitowoc Comp Inc.	16.51	19,983.15	80.38	97,259.80	0.1	169.40	0.2
6,265	Pall Corp.	38.07	238,508.55	45.99	288,127.35	0.4	4,260.20	1.5
2,715	Parker Hannifin	71.25	193,436.15	97.91	265,825.65	0.3	2,823.60	1.1
9,355	Pitney Bowes, Inc.	42.75	399,915.80	46.82	438,001.10	0.5	10,851.80	2.5
6,580	RR Donnelley	37.24	245,039.20	43.51	286,295.80	0.4	1,710.80	0.6
1,200	Regal Beloit	50.55	60,660.96	46.54	55,848.00	0.1	672.00	1.2
3,170	Rockwell Collins	67.29	213,309.30	70.64	223,928.80	0.3	2,028.80	0.9
4,130	Ryder System	49.89	206,045.70	53.80	222,194.00	0.3	2,478.00	1.1
1,450	Skyline Corp.	41.29	59,872.53	30.01	43,514.50	0.1	1,044.00	2.4
1,760	Standex International	30.51	53,694.43	28.44	50,054.40	0.1	0.00	0.0
2,405	Textron, Inc.	91.47	219,985.35	110.11	264,814.55	0.3	3,126.50	1.2
8,210	Tyco Int'l Limited	21.85	179,377.80	33.79	277,415.90	0.3	410.50	0.1
1,770	URS Corp.	42.06	74,454.17	48.55	85,933.50	0.1	0.00	0.0
3,825	United Parcel Svc-CI B	70.04	267,903.00	73.00	279,225.00	0.3	726.75	0.3
1,605	United Stationers Inc.	30.80	49,441.52	66.64	106,957.20	0.1	0.00	0.0
3,665	United Tech Corp.	31.71	116,223.30	70.93	259,958.45	0.3	3,884.90	1.5
2,520	Veeco Inst. Inc.	22.66	57,098.85	20.74	52,264.80	0.1	0.00	0.0
1,830	Waste Connections Inc.	27.53	50,383.80	30.24	55,339.20	0.1	0.00	0.0
1,245	Watson Wyatt WW CI-A	35.09	43,687.05	50.48	62,847.60	0.1	93.37	0.1
1,185	Watts Water Tech CI-A	42.61	50,490.84	37.47	44,401.95	0.1	106.65	0.2
			6,754,846.99		8,657,569.18	10.7	104,740.55	1.2
ENERGY								
3,565	Ashland Inc.	65.38	233,065.80	63.95	227,981.75	0.3	3,921.50	1.7
11,960	CMS Energy	18.28	218,673.05	17.20	205,712.00	0.3	0.00	0.0

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
2,270	Cabot Oil & Gas	28.14	63,877.80	36.88	83,717.60	0.1	0.00	0.0
6,825	ChevronTexaco Corp.	39.20	267,524.40	84.24	574,938.00	0.7	14,196.00	2.5
1,515	Cimarex Energy Co.	43.75	66,284.40	39.41	59,706.15	0.1	0.00	0.0
6,475	ConocoPhillips	29.50	191,006.65	78.50	508,287.50	0.6	2,331.00	0.5
18,175	Exxon Mobil Corp.	35.85	651,649.24	83.88	1,524,519.00	1.9	31,988.00	2.1
1,760	Helix Energy	29.90	52,632.80	39.91	70,241.60	0.1	0.00	0.0
1,585	Kirby Corp.	36.57	57,964.93	38.39	60,848.15	0.1	0.00	0.0
8,510	Nabors Industries	31.35	266,813.25	33.38	284,063.80	0.4	0.00	0.0
12,240	Nisource Inc.	24.04	294,218.70	20.71	253,490.40	0.3	2,815.20	1.1
1,550	Penn Virginia Corp.	36.41	56,430.77	40.20	62,310.00	0.1	174.37	0.3
7,545	Rowan Cos.	31.03	234,144.55	40.98	309,194.10	0.4	3,018.00	1.0
4,050	Schlumberger LTD	25.69	104,035.00	84.94	344,007.00	0.4	2,025.00	0.6
760	Seacor Smit Inc.	78.66	59,781.60	93.36	70,953.60	0.1	0.00	0.0
4,315	Smith Intl. Inc.	49.25	212,513.75	58.64	253,031.60	0.3	431.50	0.2
1,615	St. Mary Land & Exp.	36.45	58,868.20	36.62	59,141.30	0.1	80.75	0.1
3,430	Sunoco Inc.	71.03	243,632.90	79.68	273,302.40	0.3	3,430.00	1.3
			3,333,117.78		5,225,445.95	6.5	64,411.32	1.2
UTILITIES								
8,170	Ameren Corporation	53.36	435,955.94	49.01	400,411.70	0.5	20,751.80	5.2
3,205	Atmos Energy Corp.	27.54	88,255.70	30.06	96,342.30	0.1	945.47	1.0
2,375	Avista Corp.	27.29	64,808.05	21.55	51,181.25	0.1	344.37	0.7
1,340	CH Energy Group Inc.	47.81	64,065.40	44.97	60,259.80	0.1	723.60	1.2
18,170	Centerpoint Energy Inc.	18.52	336,428.45	17.40	316,158.00	0.4	2,907.20	0.9
2,645	Cleco Corp	19.25	50,906.46	24.50	64,802.50	0.1	595.12	0.9
1,455	Energen Corp.	24.39	35,492.30	54.94	79,937.70	0.1	261.90	0.3
7,041	Integrity Energy Gp. Inc.	53.26	375,026.75	50.73	357,189.93	0.4	415.42	0.1
6,850	Keyspan Corporation	40.14	274,947.20	41.98	287,563.00	0.4	12,193.00	4.2
1,700	Laclede Grp Inc.	33.42	56,812.20	31.88	54,196.00	0.1	569.50	1.1
13,445	NICOR Inc.	44.21	594,404.19	42.92	577,059.40	0.7	23,663.20	4.1
2,175	Northwest Nat Gas	33.88	73,684.43	46.19	100,463.25	0.1	685.12	0.7
7,370	Pinnacle West	42.98	316,758.20	39.85	293,694.50	0.4	3,500.75	1.2
2,640	Southern Union Co.	27.75	73,254.19	32.59	86,037.60	0.1	0.00	0.0
16,880	Teco Energy	17.70	298,831.70	17.18	289,998.40	0.4	3,207.20	1.1
1,895	UGI Corp.	27.27	51,677.79	27.28	51,695.60	0.1	1,335.97	2.6
10,095	Xcel Enegery Inc.	24.98	252,145.84	20.47	206,644.65	0.3	8,984.55	4.3
			3,443,454.79		3,373,635.58	4.2	81,084.19	2.4

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
MATERIALS								
5,220	Ball Corp.	47.39	247,375.80	53.17	277,547.40	0.3	3,132.00	1.1
11,100	Bemis Company	28.10	311,880.75	33.18	368,298.00	0.5	11,100.00	3.0
560	Carpenter Tech.	107.77	60,352.30	130.31	72,973.60	0.1	504.00	0.7
5,795	Ecolab Inc.	31.76	184,049.20	42.70	247,446.50	0.3	3,013.40	1.2
2,635	Griffon Corp.	26.88	70,829.95	21.78	57,390.30	0.1	0.00	0.0
8,400	Int'l Flavors and Frag.	36.04	302,757.89	52.14	437,976.00	0.5	5,040.00	1.2
7,370	Plum Creek Timber	35.37	260,710.00	41.66	307,034.20	0.4	4,200.90	1.4
4,920	Rohm and Haas	46.59	229,241.00	54.68	269,025.60	0.3	6,494.40	2.4
9,320	Sealed Air	24.75	230,694.70	31.02	289,106.40	0.4	1,398.00	0.5
7,225	Sigma-Aldrich	29.67	214,392.22	42.67	308,290.75	0.4	2,384.25	0.8
3,105	Weyerhaeuser Corp.	75.44	234,241.20	78.93	245,077.65	0.3	7,452.00	3.0
			2,346,525.01		2,880,166.40	3.6	44,718.95	1.6
	COMMON STOCK Total		40,494,212.50		50,057,149.56	62.0	689,791.22	1.4

U.S. TREASURY NOTES/BONDS

500,000	U.S. Treasury Note 6.125% Due 08-15-07	105.59	527,968.75	100.12	500,625.00	0.6	30,625.00	6.1
500,000	U.S. Treasury Note 4.750% Due 11-15-08	101.00	505,000.00	99.69	498,437.50	0.6	23,750.00	4.8
500,000	U.S. Treasury Note 2.625% Due 03-15-09	99.31	496,562.50	96.28	481,406.25	0.6	13,125.00	2.7
500,000	U.S. Treasury Note 5.000% Due 02-15-11	108.56	542,812.50	100.44	502,187.50	0.6	25,000.00	5.0
500,000	U.S. Treasury Note 5.000% Due 08-15-11	113.59	567,968.75	100.44	502,187.50	0.6	25,000.00	5.0
200,000	U.S. Treasury Note 4.875% Due 02-15-12	99.57	199,140.63	99.87	199,750.00	0.2	9,750.00	4.9
500,000	U.S. Treasury Note 4.250% Due 08-15-13	100.03	500,156.25	96.56	482,812.50	0.6	21,250.00	4.4
500,000	U.S. Treasury Note 4.000% Due 02-15-14	101.44	507,187.50	94.66	473,281.25	0.6	20,000.00	4.2
500,000	U.S. Treasury Note 4.500% Due 11-15-15	100.12	500,625.00	96.44	482,187.50	0.6	22,500.00	4.7
1,000,000	U.S. Treasury Note 4.500% Due 02-15-16	95.47	954,726.56	96.37	963,750.00	1.2	45,000.00	4.7
500,000	U.S. Treasury Bond 8.750% Due 05-15-17	135.03	675,156.25	128.12	640,625.00	0.8	43,750.00	6.8
	Accrued Interest				80,934.68	0.1		
	U.S. TREASURY NOTES/BONDS Total		5,977,304.69		5,808,184.68	7.2	279,750.00	4.9

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
GOVERNMENT AGENCIES								
500,000	Fed Home Loan Bank 5.805% Due 03-23-09	100.00	500,000.00	100.97	504,843.75	0.6	29,025.00	5.7
500,000	Fed Home Loan Mtg 7.000% Due 03-15-10	99.00	494,997.50	104.47	522,343.75	0.6	35,000.00	6.7
500,000	Tenn Valley Authority 6.000% Due 03-15-13	101.58	507,880.00	103.29	516,469.50	0.6	30,000.00	5.8
500,000	Fed Natl Mtg Assoc 5.500% Due 12-30-14	99.56	497,812.50	98.28	491,406.25	0.6	27,500.00	5.6
500,000	Fed Natl Mtg Assoc 5.000% Due 06-26-15	95.50	477,500.00	95.97	479,843.75	0.6	25,000.00	5.2
300,000	Fed Natl Mtg Assoc 6.250% Due 05-15-29	115.35	346,045.50	108.16	324,468.75	0.4	18,750.00	5.8
	Accrued Interest				29,400.49	0.0		
	GOVERNMENT AGENCIES Total		2,824,235.50		2,868,776.24	3.6	165,275.00	5.8
MORTGAGE BACKED SECURITIES								
FNMA/FHLMC								
172,084	FGCI #E97963 5.000% Due 07-01-18	101.78	175,149.61	97.01	166,940.76	0.2	8,604.22	5.2
345,903	FGCI #G18008 4.500% Due 09-01-19	100.31	346,983.54	95.16	329,164.37	0.4	15,565.62	4.7
512,491	FGCI #G11900 5.500% Due 02-01-21	98.91	506,885.35	98.57	505,162.10	0.6	28,186.99	5.6
891,623	FGCI #G12335 5.000% Due 05-01-21	98.59	879,084.14	96.72	862,350.62	1.1	44,581.13	5.2
719,946	FNCL #886599 5.500% Due 08-01-21	99.52	716,458.43	98.54	709,441.66	0.9	39,597.01	5.6
357,964	FNCL #799556 5.000% Due 11-01-34	99.64	356,677.42	94.09	336,818.93	0.4	17,898.19	5.3
882,555	FNCL# 832869 5.000% Due 09-01-35	96.80	854,285.77	93.95	829,195.83	1.0	44,127.76	5.3
179,166	FNCL #805625 5.500% Due 12-01-35	98.47	176,422.92	96.69	173,241.38	0.2	9,854.15	5.7
494,682	FNCL #852028 6.000% Due 01-01-36	99.16	490,507.80	99.10	490,239.44	0.6	29,680.90	6.1
897,590	FNCL #868450 5.500% Due 04-01-36	99.22	890,577.35	96.50	866,138.22	1.1	49,367.44	5.7
	Accrued Interest				9,557.81	0.0		
			5,393,032.35		5,278,251.12	6.5	287,463.40	5.5

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
GNMA								
236,834	GNJO #605142 4.500% Due 03-15-19	100.75	238,610.73	95.35	225,824.04	0.3	10,657.55	4.7
211,700	GNSF #594139 5.000% Due 10-15-33	100.09	211,898.74	94.81	200,710.91	0.2	10,585.01	5.3
	Accrued Interest				1,711.21	0.0		
			450,509.47		428,246.15	0.5	21,242.56	5.0
	MORTGAGE BACKED SECURITIES Total		5,843,541.82		5,706,497.27	7.1	308,705.97	5.4

COMMERCIAL MORTGAGE BACKED SECURITIES

750,000	GS Mortgage Sec 5.396% Due 08-10-38	101.28	759,609.38	98.00	735,000.00	0.9	40,470.00	5.5
500,000	Merrill Lynch Mtg Tr 5.499% Due 01-12-44	96.99	484,941.41	97.41	487,050.00	0.6	27,497.19	5.6
1,000,000	JPMCC 2006-LDP9 A3 5.336% Due 05-15-47	99.09	990,937.50	96.31	963,100.00	1.2	53,360.00	5.5
	Accrued Interest				5,846.53	0.0		
	COMMERCIAL MORTGAGE BACKED SECURITIES Total		2,235,488.29		2,190,996.53	2.7	121,327.19	5.6

CORPORATE BONDS

UTILITY BONDS

1,000,000	Georgia Power 5.125% Due 11-15-12	97.28	972,810.00	97.86	978,643.00	1.2	51,250.00	5.2
300,000	Natl Rural Utilities 7.200% Due 10-01-15	119.23	357,705.00	109.16	327,472.20	0.4	21,600.00	6.6
500,000	South Carolina E&G 5.300% Due 05-15-33	105.04	525,222.50	89.61	448,070.50	0.6	26,500.00	5.9
500,000	Comcast Corp. 6.450% Due 03-15-37	101.42	507,095.00	96.37	481,862.00	0.6	32,250.00	6.7
	Accrued Interest				24,465.00	0.0		
			2,362,832.50		2,260,512.70	2.8	131,600.00	5.9

FINANCIAL BONDS

500,000	Countrywide Home 4.250% Due 12-19-07	101.83	509,155.00	99.41	497,043.00	0.6	21,250.00	4.3
650,000	Goldman Sachs 4.125% Due 01-15-08	98.12	637,807.30	99.37	645,929.05	0.8	26,812.50	4.2



Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
500,000	Gen. Elec. Cap. Corp. 3.125% Due 04-01-09	98.04	490,215.00	96.43	482,129.00	0.6	15,625.00	3.2
650,000	Int'l Lease Finance 4.875% Due 09-01-10	97.18	631,699.25	98.04	637,228.15	0.8	31,687.50	5.0
500,000	National City Bank 6.250% Due 03-15-11	100.00	500,000.00	102.17	510,871.00	0.6	31,250.00	6.1
500,000	Household Finance 6.375% Due 11-15-12	115.58	577,912.50	102.67	513,335.50	0.6	31,875.00	6.2
500,000	Progressive Corp. 7.000% Due 10-01-13	94.84	474,220.00	106.94	534,710.00	0.7	35,000.00	6.5
700,000	Bear Stearns Co. 5.700% Due 11-15-14	98.58	690,032.00	98.06	686,429.10	0.9	39,900.00	5.8
500,000	Lehman Bros. Holdings 5.500% Due 04-04-16	98.90	494,485.00	97.09	485,451.00	0.6	27,500.00	5.7
	Accrued Interest				59,521.87	0.1		
			5,005,526.05		5,052,647.67	6.3	260,900.00	5.2
INDUSTRIAL BONDS								
500,000	Whitman Corp 6.375% Due 05-01-09	112.74	563,715.00	101.51	507,528.50	0.6	31,875.00	6.3
500,000	Avon Products 5.125% Due 01-15-11	97.96	489,820.00	98.77	493,834.00	0.6	25,625.00	5.2
375,000	Estee Lauder Cos Inc. 6.000% Due 01-15-12	110.31	413,658.75	102.02	382,567.87	0.5	22,500.00	5.9
500,000	Wal-Mart Stores 7.250% Due 06-01-13	105.58	527,925.00	108.00	539,989.00	0.7	36,250.00	6.7
500,000	Deere & Company 6.950% Due 04-25-14	107.33	536,670.00	107.20	535,975.50	0.7	34,750.00	6.5
450,000	Boston Scientific 5.450% Due 06-15-14	104.40	469,820.70	94.11	423,483.30	0.5	24,525.00	5.8
500,000	Cisco Systems 5.500% Due 02-22-16	97.28	486,385.00	97.58	487,904.00	0.6	27,500.00	5.6
500,000	Anheuser Busch 5.050% Due 10-15-16	100.18	500,918.63	93.71	468,561.50	0.6	25,250.00	5.4
450,000	Coca-Cola Enter 7.125% Due 08-01-17	118.68	534,051.00	109.20	491,386.05	0.6	32,062.50	6.5
1,000,000	J.C. Penney 5.750% Due 02-15-18	96.74	967,400.00	96.54	965,391.00	1.2	57,500.00	6.0

Quantity	Security	Unit Cost	Total Cost	Price	Market Value	Pct. Assets	Annual Income	Cur. Yield
500,000	IBM Corp. 7.000% Due 10-30-25 Accrued Interest	112.65	563,240.00	110.54	552,694.00	0.7	35,000.00	6.3
					81,701.91	0.1		
			6,053,604.08		5,931,016.63	7.3	352,837.50	6.0
	CORPORATE BONDS Total		13,421,962.63		13,244,177.01	16.4	745,337.50	5.7
CASH & EQUIVALENTS								
	Dividend Accrual		65,865.45		65,865.45	0.1	0.00	0.0
	Inventor MMF		785,584.73		785,584.73	1.0	24,353.13	3.1
	MMF Interest Accrual		6,535.81		6,535.81	0.0	228.75	3.5
	CASH & EQUIVALENTS Total		857,985.99		857,985.99	1.1	24,581.88	2.9
TOTAL PORTFOLIO			71,654,731.42		80,733,767.27	100.0	2,334,768.76	2.9

The Dividend Dearth: Still Too Stingy

Most big companies fail to appreciate investors' growing appetite for payouts in cash, not buybacks of stock.

By Andrew Bary, Barron's

SHARE THE WEALTH! As corporations continue to favor share-repurchase programs as a way to boost stock prices, a small band of institutional investors and equity strategists are urging managements to focus more on an old-fashioned alternative: dividends.

They argue that corporations fail to recognize that dividends are increasingly popular with individual investors, and that ample payouts can be just as good – or even better – for stock prices than big buybacks.

Just look at some of the strongest sectors of the stock market in the past two years: electric utilities, real-estate investment trusts, cigarette makers, telecommunications providers and energy-oriented master limited partnerships. All of them pay nice dividends.

"A lot of corporations are missing the seismic shift in retail demand for yield," says Henry McVey, chief investment strategist at Morgan Stanley. As tens of millions of baby boomers start retirement, the demand for yield-oriented investments will climb. McVey notes that Americans over 65 have equity portfolios with an average yield of 2.6%, versus 0.8% for those under 65.

Over all, Corporate America remains stingy with dividends. Companies in the Standard & Poor's 500 index are expected to dole out just 30% of their earnings in dividends in 2007, a record-low profit payout.

The dividend yield on the S&P 500 is only 1.8%, while the Dow Jones Industrial Average yields just a bit more: 2.1%. The S&P small- and mid-cap stock indexes yield only about 1%.

U.S. companies have raised dividends at a double-digit rate in recent years, but operating earnings have been rising even more briskly. The S&P 500 payout ratio – the percentage of earnings



paid out to stockholders – has been in a near-steady decline since the mid-1980s, when it stood at 55%. Prior to the early 1980s, buybacks were rare and companies took pride in their dividends, typically paying out more than half their profits.

In 1980, 94% of the companies in the S&P 500 paid dividends; now 77%, or 387, do. And of the 6,000 companies listed on the New York Stock Exchange, Nasdaq or American Stock Exchange that aren't in the S&P 500, just 40% pay dividends. Most technology companies, including such notables as Apple (ticker: AAPL), Cisco Systems (CSCO), Dell (DELL) and Oracle (ORCL) refuse to pay dividends, as do Amgen (AMGN), Berkshire Hathaway (BRK-A) and Viacom (VIA).

"Dividend initiations haven't grown the way I expected," says Howard Silverblatt, senior index analyst at Standard & Poor's. Silverblatt had figured that two events in 2003 would lead to more dividend payers. One was the cut in the top federal-tax rate on dividends to 15%, on par with the top rate on capital gains. The other was Microsoft's (MSFT) decision to start paying a dividend.

However, "tech companies looked at Microsoft and said the dividend hasn't done anything for its stock price. They decided they could do better with the money: buybacks," Silverblatt says. Now some companies are balking at paying or boosting payouts out of concern that the election of a Democratic president in 2008 could lead to an end to the favorable tax treatment of dividends.

One dividend fan, Edward von der Linde, the manager of the Lord Abbett Mid-Cap Value fund, says companies should pay them as a matter of principle: "Shareholders own the company. The earnings are their cash. Give it back." As for a potential rise in federal dividend taxes, von der Linde asks: "Since when is my tax status the business of management?"

He isn't crazy about share repurchases, arguing that they "give money to people who want to go away. Why not give the money to all shareholders equitably? The only way that the board of directors and management can directly affect shareholders is via the dividend." Von der Linde is frustrated that many companies employ sophisticated software – and production tools like Six Sigma – to run their businesses but have no coherent dividend policy.

WHERE CAN INVESTORS TURN for yield? Among big companies, opportunities are scarce. Only three in the S&P 500 index yield more than 5%. Windstream (WIN) and Citizens Communications (CZN), two rural phone companies, offer over 6%, and Washington Mutual (WM), a big thrift whose significant mortgage exposure lately has worried Wall Street, yields 5.1%. Banks generally are generous with dividends. US Bancorp (USB), Bank of America (BAC) and Citigroup (C) yield 4% or more. In the drug sector, Pfizer (PFE) is the leader with a 4.2% yield. Marlboro-maker Altria (MO) yields about 4%. Dividends of consumer companies Coca-Cola (KO), PepsiCo (PEP), Procter & Gamble (PG) and Colgate-Palmolive (CL) are in the 2% range.

Coke, PepsiCo, P&G, Altria and Bank of America are among an elite group that have boosted dividends for 25 straight years. Pepsi just lifted its dividend by 25%. Once-ample REIT dividend yields have shrunk with the stocks' multiyear advance; real-estate investment trusts now yield an average of 4% – and those dividends carry no tax benefits.

Once a great source of dividends, U.S. energy companies have grown stingy as their profits have soared. Their average payout ratio is less than 20%. Setting the tone for the oil industry is ExxonMobil (XOM), which devotes much of its free cash flow to buybacks while yielding just 1.7%.

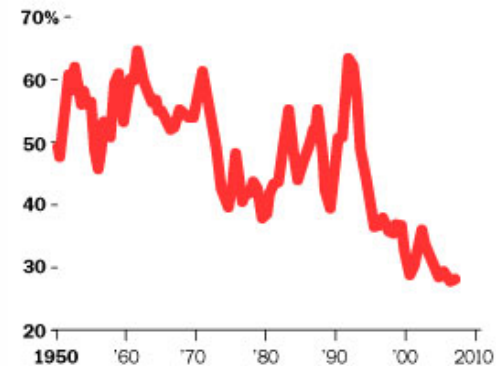
Foreign oil giants like BP (BP) and Royal Dutch Shell (RDS-B) are more forthcoming with dividends, now in the 4% range. In fact, European payout ratios generally are higher than those in the U.S. Plump dividends are available from Vodafone Group (VOD), Deutsche Telekom (DT), HSBC (HBC) and British American Tobacco (BTI). All boast yields in the 4% to 5% range.

The waning importance of dividends in the States reflects the rise in

Headed South

The percentage of earnings that S&P 500 stocks pay out as dividends now stands at half the level reached during the 1980s. Instead, corporations have been pouring money into share buybacks.

S&P 500 Dividend Payout Ratio
(operating)



S&P 500 Sector	– Dividend –	
	Yield	Payout Ratio*
Telecom	3.2%	52%
Utilities	2.9	51
Financials	2.5	33
Basic Materials	2.3	35
Consumer Staples	2.3	42
Industrials	1.9	36
Health Care	1.6	31
Energy	1.5	17
Consumer Discretionary	1.1	24
Technology	0.6	15
S&P 500	1.8	30

*Dividends as percentage of annual earnings. Source: Morgan Stanley

the past two decades of institutional investors, who tend to see stocks as vehicles for capital gains, not income. Historically, however, dividends have been crucial to investors. Since 1928, stocks have returned 10.4% annually, with 40% of that generated by dividends.

ONE OF THE DRAWBACKS OF INVESTING THROUGH mutual funds rather than directly is that fund fees eat into dividend yields. Most stock funds outside the equity-income area yield 1% or less. Dividend-oriented funds like the WisdomTree exchange-traded funds have proven popular, with WisdomTree attracting over \$3 billion in assets in less than a year.

Given the strength of corporate balance sheets and overall profits, there's no reason that companies shouldn't strike a better balance between dividends and buybacks and pay out 40% to 50% of their profits in dividends. Three industry groups -- telecom, utilities, and consumer staples -- already are in that range.

Jim Paulsen, chief investment strategist for Wells Capital Management, notes that in 1960, the S&P price-earnings ratio was comparable to the current P/E of 16, and interest rates were similar to those now. Dividend yields, however, were nearly double current levels. "The kicker is that in the next five years, the Dow rose almost 50%."

Corporations are wedded to big buybacks because executives

believe that repurchases are the best way to lift share prices. And higher prices enrich corporate managers who have lush stock-option packages. Individuals, meanwhile, can benefit from buybacks to the extent that they defer paying capital gains.

With most major stock indexes at or near record levels, there's little pressure on companies to aggressively raise dividends when buybacks seem to be doing the job. It might take a bear market for executives to rediscover dividends; ample payouts tend to put a floor under stock prices. Then again, a sharp selloff might encourage even more aggressive buybacks, given the current corporate mindset.

"Retail buyers in the marketplace are crying for dividends, but the institutional investors on quarterly conference calls are calling for buybacks," says investor Ross Margolies.

Morgan Stanley's McVey acknowledges that buybacks are "running roughshod over dividends." In 2006, repurchases by companies in the S&P 500 hit a record \$494 billion, while net repurchases, after equity issuance were \$371 billion. Dividends totaled \$233 billion. Gross repurchases topped dividends by a more than 2-to-1 ratio.

"Companies used to lead with dividends and then add in buybacks," says S&P's Silverblatt. "Now, it's totally reversed. It's all about buybacks, with some dividends thrown in."

McVey estimates that almost half the S&P 500 bought back shares equal to 2% or more of their market value last year. Corporate managers defend buybacks by arguing that their stocks are cheap and that repurchases are the best use of corporate cash. It's harder to make that argument now, with so many stocks at or near record prices.

There are many examples of companies making large buybacks at high prices with money that should have gone to dividends. The newspaper industry and its leader, Gannett (GCI), are prime examples. So is Dell. Biotech leader Amgen spent over \$9 billion in 2005 and 2006 repurchasing stock at an average price of \$71. The recent share price: 54.

Amgen, Dell, Viacom and Oracle probably should pay dividends. All are mature businesses that generate lots of cash. At Berkshire Hathaway, investors haven't seen a dividend for 40 years. While Berkshire could easily pay an ample dividend, most of its shareholders are happy to see it retain all its earnings and let Warren Buffett deploy them in investments or acquisitions.

Within the financial sector, asset managers and Wall Street firms tend to have meager payouts. It's hard to understand why asset managers don't have bigger dividends, because their businesses require minimal capital. If profits at Goldman Sachs (GS) and its peers are near a cyclical peak, their big buybacks won't look so smart.

Many corporations, particularly those in the tech sector, view paying a dividend as an admission that their growth prospects are slowing. However, the best growth companies of the past few decades, General Electric (GE), PepsiCo, Procter & Gamble and Johnson & Johnson (JNJ), have been able to expand their businesses, boost profits and pay sizable dividends.

One reason that corporations prefer buybacks is that they're much easier to curtail or eliminate if business worsens. Investors expect dividends to be maintained, short of financial catastrophe, and companies are loath to cut them. "A dividend is like marriage, while a buyback is living together," says investor Margolies. General Motors (GM), for instance, has maintained a \$1 annual payout despite its financial woes, while Ford (F) reluctantly eliminated its dividend last year.

The Great Divide

The banking, telecom and utility sectors remain great redoubts of dividends, while payouts remain scarce in the technology group. Below, notable stocks with some of the highest and lowest yields.

Economically sensitive companies that don't want to commit to a sharply higher regular quarterly dividend can pay a modest quarterly, supplemented by an annual dividend pegged to profits. Paccar (PCAR), the truck maker, has long pursued this approach while Diamond Offshore Drilling (DO), a provider of offshore rigs to the energy industry, began doing so in 2006. Diamond, whose shares trade at 92, has a quarterly payout of 12.5 cents a share. It supplemented that with a \$4 special dividend in early 2007, based on 2006 earnings of \$5 a share. Diamond could pay out \$30 a share in dividends in the coming years if current Street profit projections are accurate and if it continues its high payout strategy.

Buybacks Dominate

While the amount that S&P 500 companies paid out in dividends rose 10% last year, the sum they spent on buybacks jumped by almost 29%.

S&P 500	2005	2006	2007E
Gross Repurchases (bil)	\$351	\$494	\$430
Equity Issuance (bil)	\$110	123	125
Net Repurchases (bil)	241	371	305
Net Repurchase Yield	2.1%	2.9%	2.2%
Dividends Paid (bil)	\$202	\$224	\$252
Dividend Yield	2.1%	1.8%	1.8%
Total Yield*	4.2%	4.7%	4.0%

* Dividend yield plus net repurchase yield. E=Estimate.
Source: Morgan Stanley, Strategas

"I call it libertarian capitalism," says Jim Tisch, the company's CEO. "The shareholder has the ability to decide. If the shareholder is in favor of a share repurchase, he can use the dividend to purchase shares – in which case he would be in essentially the same position as if the company bought in shares." If a shareholder wants cash, he or she can just bank the dividend. Tisch also is CEO of Loews, the New York conglomerate controlled by the Tisch family. Loews owns 50% of Diamond Offshore.

University of Pennsylvania professor Jeremy Siegel notes that special annual dividends were common among cyclical companies in 1950s and 1960s: "General Motors used to do it all the time. It was like a Christmas present to shareholders."

Despite the benefits of dividends, the stock-repurchase habit is tough to break. But in the long run, companies that kick it may do more for their shareholders than any buyback can accomplish.

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GENEROUS	Recent Price	Dividend Yield	2007 P/E*	Comment
Windstream	\$14.66	6.8%	15.8	Telecom is highest-yielding stock in S&P 500
Washington Mutual	42.83	5.1	11.5	Has highest yield among big financial firms
Reynolds American	67.02	4.5	14.8	Camel cigarette maker has high payout
U.S. Bancorp	34.58	4.6	12.9	Midwest bank has new fan: Warren Buffett
Consolidated Edison	51.43	4.5	16.3	Dividends never out of style with utilities
Bank of America	51.12	4.4	10.5	Big bank has lifted dividend for 25 years
Altria Group	69.99	3.9	16.4	Tobacco giant is long-time fan of dividends
Citigroup	54.91	3.9	12.3	Stock has been punk, but dividend is lush
Verizon Comm.	42.74	3.8	18.1	Verizon and rival AT&T pay ample dividends
New York Times	24.96	3.7	22.6	Publisher just made large dividend increase
STINGY				
American Intl Group	\$72.46	0.9%	11.2	Giant insurer remains stingy with dividend
Goldman Sachs	227.11	0.6	10.6	Street firms generally pay low dividends
Franklin Resources	136.88	0.4	19.2	Asset managers also loath to share wealth
UnitedHealth Group	53.80	0.1	15.6	Another low-yielding group: health insurers
Amgen	54.33	0.0	12.9	Embattled biotech ought to consider dividend
Cisco Systems	26.48	0.0	18.6	Despite talk, tech giant still has no dividend
Dell	25.92	0.0	22.0	Wasted money on buybacks at high prices
Oracle	18.99	0.0	17.9	Software sector maturing. Why no dividend?
Viacom	43.00	0.0	18.8	What's up Sumner? Rivals pay dividends
Berkshire Hathaway	109000.00	0.0	18.7	Shareholders happy to see Buffett invest cash

*Estimate based on recent stock price and expected 2007 calendar earnings.

Source: Thomson Financial/Baseline